

QUESTION 4: CASH FLOW STATEMENT AND INTERPRETATION

(70 marks; 40 minutes)

You are provided with information about Vooma Limited for the past two financial years ended 30 June. The company is situated in KZN and trades in racing bikes.

INFORMATION FOR THE YEAR ENDED 30 JUNE:

A. FIGURES IDENTIFIED FROM INCOME STATEMENT:

	2018	2017
Sales	R13 182 000	R7 740 000
Number of bikes sold	1 750 bikes	900 bikes
Mark-up %	58%	72%
Cost of sales	8 330 000	4 500 000
Gross profit	4 852 000	3 240 000
Operating expenses	1 900 000	1 500 000
Depreciation	412 000	275 000
Income tax	819 000	444 000
Net profit after tax	1 911 000	1 036 000

B. EXTRACT FROM BALANCE SHEET ON 30 JUNE:

	2018	2017
Fixed assets (carrying value)	R12 154 000	R8 031 000
Investments	625 000	600 000
Current assets	2 427 000	2 090 000
Inventories	1 652 000	1 250 000
Trade and other receivables	365 000	820 000
SARS: Income tax	0	15 000
Cash and cash equivalents	410 000	5 000
Shareholders' equity	12 112 000	7 191 000
Non-current liabilities (Loan)	1 850 000	2 600 000
Current liabilities	1 244 000	930 000
Trade and other payables	420 000	515 000
Shareholders for dividends	750 000	280 000
SARS: Income tax	74 000	0
Bank overdraft	0	135 000

C. CASH FLOW STATEMENT:

	2018	2017
Cash flows from operating activities	R1 850 000	R1 046 000
Cash generated from operations	3 322 000	1 989 000
Interest paid	?	(260 000)
Dividends paid	(520 000)	(254 000)
Income tax paid	?	(429 000)
Cash flows from investing activities	(4 560 000)	(167 000)
Purchases of land and buildings	(4 840 000)	0
Sale of fixed assets	?	383 000
Change in investments	?	(550 000)
Cash flows from financing activities	3 250 000	(400 000)
Share capital issued	4 000 000	0
Shares repurchased	0	(1 000 000)
Change in non-current liabilities	(750 000)	600 000
Cash and cash equivalents: Net change	540 000	479 000
Opening balance	(130 000)	(609 000)
Closing balance	410 000	(130 000)

D. FINANCIAL INDICATORS:

	2018	2017
Mark-up % achieved	58%	72%
Operating expenses on sales	?	19,4%
Debt-equity ratio	0,2 : 1	0,4 : 1
Acid-test ratio	?	0,9 : 1
Return on shareholders' equity	?	14,4%
Return on capital employed	20,8%	17,8%
Earnings per share	208 cents	130 cents
Dividends per share	?	70 cents
Dividend pay-out rate	50%	54%
Net asset value per share	1 211 cents	899 cents
Market price on stock exchange	2 800 cents	2 100 cents
Interest on loans	12%	12%

4.1 Calculate the following for 2018:

4.1.1 % operating expenses on sales (2)

4.1.1 Calculate: % operating expenses on sales

Workings	Answer

4.1.2 Acid-test ratio

4.1.2 Calculate: Acid-test ratio

Workings	Answer

4.1.3 % return on shareholders' equity

4.1.3 Calculate: % return on shareholders' equity

Workings	Answer

4.2 Calculate the following figures that will appear in the 2018 Cash Flow Statement:

4.2.1 Change in investments (2)

4.2.1 Calculate: Change in investments

Workings	Answer

4.2.2 Income tax paid

4.2.2 Calculate: Income tax paid

Workings	Answer

4.2.3 Fixed assets sold (at carrying value)

4.2.3 Calculate: Fixed assets sold (at carrying value)

Workings	Answer

4.3 Cash flow and financing activities:

4.3.1 Explain why the directors are satisfied with the improvement in cash and cash equivalents since 1 July 2016. (3)

3.1 Explain why the directors are satisfied with the improvement in cash and cash equivalents since 1 July 2016. Quote figures.

4.3.2 Decisions and gearing in 2018:

- Identify THREE decisions that the directors made to pay for land and buildings. (6)
- Explain how these decisions affected:
 - Capital employed
 - Financial gearing (Quote TWO indicators.) (6)

Identify **THREE** decisions that the directors made to pay for land and buildings.

Decision 1 (with figures)	
Decision 2 (with figures)	
Decision 3 (with figures)	

Explain how these decisions affected the capital employed in the 2018 financial year. Quote figures.

Explain how these decisions affected the financial gearing in the 2018 financial year. Quote TWO indicators and their figures.

- 4.3.3 From the Cash Flow Statement identify ONE decision made by the directors in 2017 that they did NOT make in 2018, besides the points mentioned above. Give a possible reason for the decision in 2017.

- 4.3.3 From the Cash Flow Statement identify ONE decision made by the directors in 2017 that they did NOT make in 2018, besides the points mentioned above. Give a possible reason for the decision in 2017.

Decision (with figures)	Possible reason

4.4 Dividends, returns and shareholding for the 2018 financial year:

- On 1 July 2017 there were 800 000 shares in issue.
- On 31 December 2017 interim dividends were paid.
- On 1 January 2018, 200 000 shares were issued to existing shareholders.
- On 30 June 2018 final dividends of 75 cents per share were declared on all shares, but have not yet been paid.

4.4.1 Calculate for the 2018 financial year:

- Total interim dividends paid (3)
- Interim dividends per share (3)

4.4.1 Calculate: Total interim dividends paid for the 2018 financial year

Workings	Answer

Calculate: Interim dividends per share for the 2018 financial year

Workings	Answer

4.4.2 Calculate total dividends earned by Dudu Mkhize for the 2018 financial year. Her shareholding is:

	SHARES PURCHASED	PURCHASE PRICE
31 August 2016	380 000 shares	R7,00
1 January 2018	110 000 shares	R20,00
TOTAL	490 000 shares	

4.4.2 Calculate total dividends earned by Dudu Mkhize for the 2018 financial year.

Workings	Answer

- 4.4.3 On 1 January 2018 each shareholder was offered two shares for every five shares owned. Dudu did not buy enough shares to become the majority shareholder.

Calculate the minimum number of additional shares that Dudu should have bought.

(3)

- 4.4.3 Calculate the minimum number of additional shares that Dudu should have bought.

Workings	Answer

- 4.5 The directors decided to buy land and buildings in two other provinces in 2018 to solve the problem of low sales that they had previously had in KZN.

- 4.5.1 Explain:

- Why it was necessary to purchase properties in other provinces instead of in KZN (2)
- Whether the decision to purchase these properties had the desired effect on sales (3)
- Another strategy they used to solve the problem of low sales (3)

- 4.5.1 Explain why it was necessary to purchase properties in other provinces instead of in KZN.

Explain whether the decision to purchase these properties had the desired effect on sales. Quote figures.

Explain another strategy they used to solve the problem of low sales. Quote figures.

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4.5.2 The CEO, Ben Palo, wants to communicate other good news to the shareholders at the AGM. Give advice on what he should say about the following topics:

- Earnings per share (3)
- % return earned (3)
- Share price on the JSE (3)

4.5.2 Give advice on what Ben Palo should say about the following topics:

Advice on what to say on earnings per share:	3
Advice on what to say on % return earned:	3
Advice on what to say on share price on the JSE:	3